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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Docket No. MC96-3

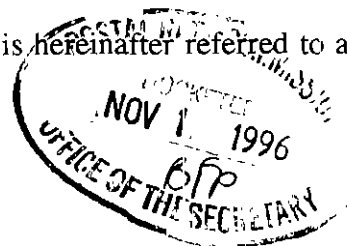
SPECIAL SERVICES FEES AND CLASSIFICATIONS, 1996)

NASHUA PHOTO INC., MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
MOTION FOR ORDER PROTECTING CONFIDENTIALITY,
AND PROHIBITING UNNECESSARY DISCLOSURE,
OF PROPRIETARY BUSINESS INFORMATION
(November 1, 1996)

Nashua Photo Inc. ("Nashua"), Mystic Color Lab ("Mystic"), and Seattle FilmWorks, Inc. ("Seattle"), also referred to jointly herein as the "movants," respectfully move, pursuant to Rule 31a of the Rules of Practice (39 C.F.R. sec. 3001.31a), for entry of an order placing *in camera* certain workpapers underlying the direct testimony of Dr. John Haldi (NMS-T-1) — designated as NMS-WP2 — in support of his proposal for a modification of Business Reply Mail/BRMAS.

The grounds for this motion are as follows:

(1) The documents in question — a redacted copy is attached hereto as Attachment 1 — include confidential business information of Nashua, Mystic, and Seattle ("NMS"), respectively, which is relevant to the proposal submitted by the movants in this proceeding, as set forth in the Direct Testimony of Dr. John Haldi (NMS-T-1) filed on October 9, 1996. These documents specifically deal with calculations underlying Dr. Haldi's testimony concerning the negligible effect of the NMS Business Reply Mail/BRMAS proposal on the projected net revenues of the Postal Service. (This proposal is hereinafter referred to as the "NMS proposal.")



(2) As Dr. Haldi revealed in his Direct Testimony (NMS-T-1, pp. 32, 60), the effect of the NMS proposal on Postal Service revenues is estimated to be small.¹ The confidential documents in question, which reveal volume and cost data of each company in the highly competitive photo film processing industry, by agreement, are not even being exchanged among Nashua, Mystic, and Seattle, and must not be made available for examination or disclosure outside of the Commission or the Postal Service counsel dealing with the NMS proposal for BRM in this docket. If such information were to be disclosed to competitors, including disclosure among the intervenors themselves, it could have a severely adverse effect on the business affairs of one or more of the movants.

(3) The documents in question include confidential business information of Nashua, Mystic, and Seattle, respectively, disclosing their respective volume and cost data during periods in 1995 and 1996. This information was disclosed to counsel and to the movants' expert witness, Dr. John Haldi, to allow him to study the potential revenue effect of the NMS proposal on the Postal Service's projected net revenues. As indicated in Dr. Haldi's testimony (NMS-T-1, p. 60), that information was used as a basis for Dr. Haldi's conclusion that the NMS proposal would have a small effect on the Postal Service's net revenues. The movants submit that the said documents are relevant herein on that issue only, should be

¹ For example, Dr. Haldi concludes, at page 32 of his testimony, that the average unit cost for the NMS Business Reply Mail would be lower than the BRMAS unit cost even if all BRMAS-qualified mail were to be processed on automation equipment, and he concludes, at page 60 of his testimony, that "adoption and implementation of the pre-bar coded BRMAS rate for non-automatable bulk BRM would reduce the Postal Service's net revenues by less than one-third of one percent of the \$340 million in additional revenues that the Postal Service expects to realize from its other requests in this docket." Both conclusions were based, in part, upon confidential NMS volume and cost data.

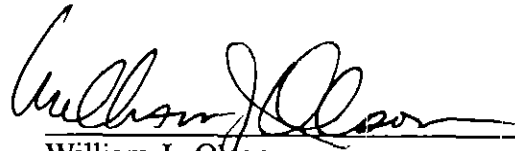
subject to disclosure only to members of the Commission and to the Postal Service attorney(s) assigned to deal with the NMS proposal in this docket, and should not be copied or disclosed.² Furthermore, there should be no expiration date on the non-disclosure of such confidential documents. The movants would ask that the *in camera* order provide that, upon the Board of Governors' decision following the Commission's Opinion and Recommended Decision becoming final, the confidential documents be returned to the undersigned, as counsel for NMS.

4. To the extent that counsel for the Postal Service or any other person should find it necessary to include, in any questioning, brief, or presentation of any kind, any references to the NMS confidential data, NMS respectfully requests that the *in camera* order require counsel to proceed first to seek permission from the Presiding Officer, with notice to the undersigned, in a separate, confidential motion which would become part of the *in camera* record in this proceeding.

5. The movants respectfully request that the confidential documents themselves, NMS-WP2, together with transcripts of any testimony subject to the requested *in camera* order, be segregated from the public record and filed in a sealed envelope, bearing the title and docket number of this proceeding, the notation "*In Camera* Record under section 3001.31a," and a tentative date on which the *in camera* documents are to be returned to the undersigned.

² The Postal Service requested and was provided an unredacted copy of these workpapers pursuant to a nondisclosure agreement.

Respectfully submitted,



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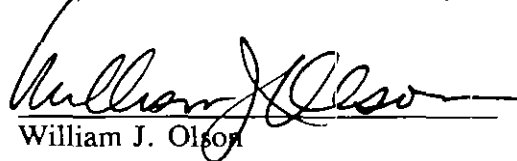
Counsel for Nashua Photo Inc.,

Mystic Color Lab, and

Seattle FilmWorks, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

November 1, 1996

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON D.C. 20268-0001

SPECIAL SERVICES FEES AND CLASSIFICATIONS)

Docket No. MC96-3

CONFIDENTIAL (Redacted Version)
Second Set of Work Papers to Accompany

Direct Testimony of

DR. JOHN HALDI

Concerning

NON-AUTOMATABLE BULK BUSINESS REPLY MAIL

on Behalf of

NASHUA PHOTO INC.,
MYSTIC COLOR LAB, AND
SEATTLE FILMWORKS, INC.

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Mystic Color Lab, and
Seattle FilmWorks, Inc.

October 9, 1996

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**Unit Costs of Non-Automatable Bulk BRM
and Revenue Impact**

This working paper presents data on (i) the volume of Business Reply Envelopes ("BREs") received by Nashua Photo Inc. ("Nashua"), Mystic Color Lab ("Mystic") and Seattle FilmWorks, Inc. ("Seattle"), and (ii) the estimated unit cost to count, rate and bill the non-automatable bulk BRM of Nashua, Mystic and Seattle. The low unit costs developed here, when compared to the costs of BRMAS mail, show the discrimination that exists against non-automatable bulk BRM.

It is unfair and inequitable to use the postal monopoly to exploit any category of mail for the benefit of other mailers. When undue discrimination exists, it should be eliminated regardless of the impact on Postal Service revenues. At the same time, the Commission should be cognizant of the impact on Postal Service revenues that would result from adopting the proposed changes to the DMCS, and converting the fee for non-automatable bulk BRM to BRMAS rates. The focus is on these three firms (Nashua/Mystic/Seattle), for which reliable data on incoming volume are available. Consideration is also given, however, to the possibility that the Postal Service may (i) already use similar procedures for other BRM permit holders, or (ii) may extend such cost-reducing procedures to other BRM permit holders.

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Volume of Business Reply Mail

The annual volume of Business Reply Envelopes ("BREs") received by Nashua, Mystic and Seattle during a recent 12-month period is shown in Table WP2-1, Column 1.¹ For all three firms, the total volume of BREs in 1995 was approximately [REDACTED] million.² As shown in table WP1-1, the total FY 1995 volume of BREs that paid 10 cents per piece is estimated at around 525 million. The combined volume of NMS is thus about [REDACTED] percent of non-automatable BRM.

**Unit Cost of Counting, Rating and Billing
Non-Automatable Bulk BRM**

As described in the accompanying testimony, two different systems are in use. Nashua uses an incoming manifest system, which relieves the Postal Service of almost all costs by virtue of the considerable worksharing effort undertaken by Nashua. For BRM sent to Mystic and Seattle FilmWorks, a weight-averaging system is used by their respective post offices.

Development of the estimated unit cost is shown in Table WP2-1. The estimated annual number of hours that a clerk spends on the counting, rating and billing function for each firm is shown in columns 2a and 2b. These are the daily hours discussed in the

¹ Nashua data are for the 12 months August 1, 1995 through July 31, 1996. Mystic and Seattle data are for the 1995 calendar year.

² Nashua's volume of BREs has been growing; its volume for CY 1995 was less than that shown in Table WP2-1.

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accompanying testimony multiplied by (i) in the case of Nashua, [REDACTED] days a year, and (ii) in the case of Mystic and Seattle, [REDACTED] days a year.³ At Nashua, the only time required of the clerk is for sampling, which does not vary with the volume of BREs received. By contrast, with respect to BREs received by Mystic and Seattle, the time required to weigh sacks of mail and record their weight does vary with the volume received. More sacks require more time. Since Postal Service clerks/mailhandlers do not record time spent working on individual BRM accounts, the estimated hours per day is necessarily subject to some uncertainty, which is reflected by the range discussed in the accompanying testimony and shown in columns 2a and 2b.

The annual cost is shown in columns 3a and 3b. The cost is the product of the effective hourly wage rate times the number of hours. As shown in the lower portion of Table WP2-1, the effective hourly wage rate is the productive hourly wage rate (including fringe benefits) for a clerk/mailhandler for 1996 (\$23.952), times the piggyback factor.⁴ For Nashua, the piggyback factor is 1.717276, and for Mystic and Seattle the piggyback factor is

³ Hours at Nashua are by the on-site clerk; Nashua's plant is closed [REDACTED] days a year. For Mystic and Seattle, the hours are by their respective post offices, which are presumed to work [REDACTED] days a year.

⁴ A specific piggyback factor does not exist for a detached mail unit such as that at Nashua. According to the response to NM/USPS-80, the closest piggyback factor is for a bulk mail/acceptance unit. This is the piggyback factor supplied by the Postal Service, and is presumably based on the Postal Service's CRA. How much the piggyback factors would change if the Commission's approved cost methodology were used is not known.

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1.533220.⁵ Unit cost, shown in columns 4a and 4b, is annual cost divided by annual volume.

Nashua. The Postal Service's unit cost for Nashua is [REDACTED] cents per piece. Witness Pham estimated that pieces processed only on BRMAS have a 1995 unit cost of 0.63 cents.⁶ Updated to 1996, the unit cost would also be approximately 0.63 cents.⁷ The Postal Service's unit cost at Nashua is thus about [REDACTED] the unit cost of pieces processed *solely* on BRMAS automation equipment. Moreover, should Nashua convert all of its volume to BREs, the unit cost can be expected to decline further, since total cost of sampling is essentially invariant with respect to volume.

Mystic. The unit cost for Mystic ranges from [REDACTED] to [REDACTED] cents per piece. In order for mail paying the BRMAS rate to achieve a unit cost this low, BRMAS processing must achieve [REDACTED].

Seattle FilmWorks. The unit cost for Seattle ranges from [REDACTED] to [REDACTED] cents per piece. In order for mail paying the BRMAS rate to achieve a unit cost this low, BRMAS processing must also achieve [REDACTED].

⁵ The piggyback factor used here for Mystic and Seattle is for the combined manual incoming secondary operation, and is the same as that which was used by USPS witness Pham for the manual postage due unit in USPS-RT-7A, Docket No. R94-1.

⁶ Docket No. R94-1, USPS-RT-7A, p. 1. (Testimony submitted but excluded from evidence.)

⁷ The update of this cost is based on the ratio of the 1996/1995 productive hourly wage rates, which were \$23.952 and \$23.8496, respectively (see response to NM/USPS-79). The ratio is 1.0042935.

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For all three firms, total volume, total cost, and average unit cost are shown in the last row of Table WP2-1. The unit cost, which ranges from [REDACTED] to [REDACTED] cents per piece, is below the unit cost that would be achieved if and when the Postal Service's BRMAS program achieves 100 percent coverage.

Other mailers. It is not known whether any BRM permit holder has developed an incoming manifest system similar to Nashua's. However, according to the Postal Service, "[s]ome plants have entered into local agreements with customers and have established 'reverse manifest' procedures; however, there is no national policy which requires uniformity in the precise terms of these agreements."⁸ To the extent that such other incoming manifest systems exist, the unit cost data for Nashua should be highly indicative, if not completely robust, to similar operations. Moreover, even if the unit cost of another such system were to range up to [REDACTED] times that estimated for Nashua, it would still be lower than the unit cost of fully automatable BRM that is actually processed on automation equipment.

It is also conceivable that some post offices may use a weight-averaging system for various BRM accounts. If so, the range of unit costs shown in Table WP2-1 for Mystic and Seattle should be robust for such other situations. The estimated unit cost for these two firms is in the range [REDACTED] to [REDACTED] cents. This means that other permit holders with a low per-piece cost are also denied the benefit of rates that reflect more efficient

⁸ Response to NM/USPS-27.

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alternative procedures and are likewise the victims of undue discrimination by the Postal Service.

To sum up, mailers that use the weight-averaging system can be expected to have a unit cost that, on average, falls between [REDACTED] and [REDACTED] cents. A BRMAS rate of 2 cents per piece results in a cost coverage between [REDACTED] and [REDACTED] percent. Such a coverage falls in the range of the [REDACTED] cost coverages established in Docket No. R94-1, and is [REDACTED] the Docket No. R94-1 average cost coverage of 157 percent. It is also [REDACTED] than the cost coverages proposed by the Postal Service for other special services in this docket, which are described by USPS witness Lyons as "reasonable, and consistent with the systemwide Docket No. R94-1 cost coverage of 157 percent."⁹

Impact on Postal Service Revenues

If the entire BRM volume of Nashua, Mystic and Seattle were converted from the BRM fee of 10 cents per piece to the BRMAS rate of 2 cents per piece, the immediate impact on Postal Service revenues would be a reduction of 8 cents per piece. The volumes shown in Table WP2-1 are reproduced in column 1 of Table WP2-2. At 8 cents per piece, the Postal Service would suffer, on account of these three BRM users, an immediate reduction in gross revenue of about \$[REDACTED], as shown at the bottom of column 1. This is a comparatively small amount, less than [REDACTED] percent, of the \$340 million in

⁹ USPS-T-1, p. 20.

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additional revenues that the Postal Service expects to realize from its other requests in this docket. Moreover, as discussed below, there is the possibility of offsetting increased revenues from a reduced fee. The effect on net revenues would thus be less than the impact on gross revenues indicated above.

Nashua. In the case of Nashua, if the applicable BRM fee were only 2 cents, Nashua would strive to convert to BRM the remainder of its incoming volume (the other portion is currently prepaid by customers). For the 12-month period reported by Nashua, the other non-BRM volume amounted to [REDACTED] pieces. This is shown in column 2 of Table WP2-2. In fairly short order, the Postal Service could expect to realize an annual offset of over \$[REDACTED].

Mystic and Seattle FilmWorks. As indicated in the accompanying testimony, Mystic and Seattle have always distributed to their customers BRM envelopes exclusively. Enabling these firms to pay the BRMAS rate would eliminate the existing inequity, but it would not be expected to have any immediate impact on the total volume of BREs which they receive.

Other BRM permit holders. The possibility exists that the Postal Service is currently using weight-averaging to process non-automatable bulk BRM for other permit holders. Converting the fee paid by any other such user to the BRMAS rate will cause some small reduction in Postal Service revenues. At the same time, other firms that receive significant quantities of non-automatable prepaid First-Class Mail could decide to use BRM if the lower BRMAS rate became applicable. At least one other major through-the-mail photo-

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finisher, District Photo, does not currently use BRM, except possibly for limited market tests (similar to those Nashua started conducting in 1990). Should other firms such as District Photo convert to BRM, the Postal Service would receive additional BRM fees, which would reduce further the already small impact on Postal Service revenues.

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Table WP2-1

Unit Cost for the Counting, Rating and Billing of
Non-Automatable Bulk Business Reply Mail

	Volume of BREs Received Annually	Estimated Annual Hours by Postal Service Clerk		Annual Cost, at Effective Hourly Wage Rate (dollars)		Unit Cost (cents/piece)	
		Min (2a)	Max (2b)	Min (3a)	Max (3b)	Min (4a)	Max (4b)
Nashua		360	360	14,808	14,808		
Mystic		511	730	18,766	26,808		
Seattle		548	821	20,106	30,159		
Subtotal - M/S		1,059	1,551	38,872	56,968		
TOTAL/AVG.		1,419	1,911	53,680	71,775		

Source:

Effective Hourly Wage Rate:

TY 1996 clerk/mailhandler cost, per NM/USPS-78	=	\$43,298	NM/USPS-78
Avg number of productive hours for a clerk/mailhandler	=	1,796	79
Productive hourly wage rate for a clerk/mailhandler in 1996	=	\$23.95	79
Piggyback factor for bulk mail/acceptance unit	=	1.717276	80
Piggyback factor for a clerk/mailhandler in manual inc. sec.	=	1.533220	
Effective hourly wage rate in 1996:			
for a clerk/mailhandler in bulk mail/accept unit	=	\$41.13	
for a clerk/mailhandler in manual inc. sec.	=	\$36.72	

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Table WP2-2

Effect on Postal Service Revenues from Making BMRAS Rates
Available to Nashua, Mystic and Seattle FilmWorks

	Volume of BREs Received Annually	Customer Prepaid Volume	TOTAL
	(1)	(2)	(3)
Nashua	████████	████████	████████
Mystic	████████	████████	████████
Seattle	████████	████████	████████
TOTAL	████████	████████	████████
Per piece impact from 2 cent BMRAS rate	████████	████████	
Revenue Impact	████████	████████	████████